

Summary of Laws and Regulations on Bank Indonesia

Regulation: Bank Indonesia Regulation Number: 12/10/PBI/2010 – The Third Amendment to Bank Indonesia Regulation Number 5/13/PBI/2003 concerning the Net Open Position for Commercial Banks

Effective Date: July 1, 2010

Summary:

I. Background and Purpose

Economic dynamics at present and in the future lead a number of challenges that require monetary stability and solid financial system in order to maintain medium-term and long-term sustainable economic growth. One of the efforts to strengthen monetary and financial system stability is the financial market deepening, including the domestic foreign exchange market deepening which will allow banks to have adequate space for managing their foreign exchange exposures by remaining in compliance with the prudential banking principles.

In relation to the aforementioned matter, Bank Indonesia has revised provisions on Net Open Position for Commercial Banks in the form of the Third Amendment to Bank Indonesia Regulation No.5/13/PBI/2003 concerning the Net Open Position for Commercial Banks.

II. Materials of the Regulation

1. Reversal of arrangement on Net Open Position for Banks' Balance Sheets

2. Revision of arrangement on Net Open Position (NOP) at any time by providing an interval of 30 minutes and a maximum limit of 20% of the bank's capital.
 - a. NOP every 30 (thirty) minutes is the sum of the overall NOP at the end of the previous business day and treasury open position at the end of every 30 (thirty) minute-tenure.
 - b. The aforementioned NOP every 30 minutes is calculated as of the opening of the treasury system until the closing of the treasury system.

Example:

- The opening time of the treasury system of Bank A is at 08.00 WIB. The maximum limit of Net Open Position of 20% of Capital at the end of every 30 minute-tenure is calculated as of 08.00 WIB with an interval of 30 minutes is as follows:
 - i. At 08.30 WIB: Maximum NOP of 20% of Capital
 - ii. At 09.00 WIB: Maximum NOP of 20% of Capital
 - iii. At 09.30 WIB: Maximum NOP of 20% of Capital; and so forth until the closing of the treasury system.
- The opening time of the treasury system of Bank B is at 07.45 WIB. The maximum limit of Net Open Position of 20% of Capital at the end of every 30 minutes as of 07.45 WIB with an interval of 30 minutes is as follows:
 - i. At 08.15 WIB: Maximum NOP of 20% of Capital
 - ii. At 08.45 WIB: Maximum NOP of 20% of Capital

iii. At 09.15 WIB: Maximum NOP of 20% of Capital; and
so forth until the closing of the treasury system.

- The treasury open position at the end of every 30 (thirty) minute-tenure is the net difference between the foreign exchange purchase and sale transactions related to the treasury activities of the Bank at the last position in the relevant period of 30 (thirty) minutes.
- The aforementioned calculation of treasury open position includes foreign exchange transactions that have been made (deal done) but have not been inputted into the treasury system.

Example:

The opening time of the treasury system of Bank A is at 08.00 WIB. If there are foreign exchange transactions made at 08.20 WIB but have not been inputted into the treasury system until 08.30 WIB, the aforementioned transactions are to be included in the calculation of NOP of every 30 (thirty) minutes at 08.30 WIB.

3. Revisions on financial penalty for the violation of provisions on NOP in the amount of Rp250 million per day of violation with a maximum limit of Rp5 billion per calendar year.
4. Obligation for banks to submit report (self declare) on violations of NOP, either the overall NOP of the daily NOP for every 30 minutes.

- a. In the event of a violation of the NOP management and maintenance obligation at the end of each day and the NOP every 30 (thirty) minutes, Banks must submit report on such violation to Bank Indonesia.
- b. The aforementioned report of violation must be submitted by no later than 16.00 WIB on the 2nd (second) business day following the occurrence of the violation and shall be signed by at least the executive official of the Bank.

5. Provisions on the Imposition of Sanctions

- a. Violation of provisions on NOP will be subject to sanctions in the form of written reprimand and financial penalty in the amount of Rp250 million per day of violation with a maximum limit of Rp5 billion per calendar year.
- b. In addition to the aforementioned sanctions, additional sanctions may be imposed on certain types of violation in the form of fit & proper test and/or assessment on the bank's soundness.